MRF Limited (Revised)

September 30, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	2,799.99	CARE AAA; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	1,500.00 (Enhanced from 1,000.00)	CARE AAA; Stable / CARE A1+	Reaffirmed
Short Term Bank Facilities	1,500.00	CARE A1+	Reaffirmed
Non-Convertible Debentures	150.00	CARE AAA; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities of and instruments of MRF Limited (MRF) continues to draw comfort from robust business risk profile of MRF marked by its strong brand image, long operational track record, continued market leadership position in the domestic tyre industry characterised by presence across all the user segments, strong presence in the replacement market supported by strong distribution network. The rating also factors company's robust financial risk profile marked by stable earnings, comfortable debt coverage metrics and strong liquidity position.
The above strengths largely offset susceptibility of its revenues to the cyclicality in the tyre industry, volatility of raw material prices, both natural rubber and crude-linked derivatives and competitive nature of the industry.

Rating sensitivities: Factors likely to lead to rating actions.

Positive factors – Not Applicable

Negative factors

- Continuous decline in market share along with increase in debt levels with net overall gearing (including dealer deposits) above 0.50x and net debt/PBILDT > 1x on a sustained basis.
- Sharp deterioration in MRF's profitability indicators or debt coverage metrics- negatively impacting its credit profile

Analytical approach: Consolidated

Consolidated owing to strong operational and strategic linkages with its subsidiaries. The entities are in the same line of business, sell under common brands and have common management and control. The entities considered in consolidation are mentioned in **Annexure 6** below.

Outlook: Stable

Stable outlook for MRF reflects its likelihood to maintain its market position in the domestic tyre industry which coupled with healthy demand scenario for tyre players should enable it to sustain its healthy operating and financial performance over the medium term.

Detailed description of the key rating drivers:

Key strengths

Market leadership position in domestic tyre industry with pan-market presence:

MRF continues to be the market leader in the domestic tyre industry. The company has an established presence in almost all sub-segments of the tyre industry, viz., two-wheeler, truck and bus, passenger car and jeep, small commercial vehicles (SCVs) and light commercial vehicles (LCVs), farm, off the road (OTR) and aviation, etc. MRF's share in the total estimated industry sold units stands at around 30%, reflecting continuation of its market leadership position.

[1]Complete definition of ratings assigned are available at www.careedge.in and other CARE Ratings Limited's publications.

Strong brand image and wide distribution network:
With long track record of operations and well-established pan-India distribution network, the company enjoys strong brand image. As on March 31, 2024, the company had active network of more than 5,000 dealers, translating into strong presence in the replacement market which is critical to the overall profitability. MRF has a strong presence in the replacement market which contributed to around 71% of the total revenue during FY24 (PY: 71%). With such high share of revenue coming from the replacement market, risks arising out of strong competition and the cyclical nature of the automobile industry are relatively limited. In addition to this, the company has strong export revenue which contributed up to 8% of the total revenue in FY24 (PY: 8%). Major export destinations of MRF during FY24 continued to be Philippines, Bangladesh and Nepal.

Diversified product portfolio and wide distribution network: The customer-wise revenue mix of MRF stood at 21%: 71%: 8% for the original equipment manufacturer (OEM): replacement: export customers respectively in FY24 in line with FY23 revenue mix. Higher revenue share from the relatively stable and margin-accretive replacement segment continues to lend stability to MRF's revenue profile. During FY24, the OEM segment witnessed a pent-up demand as the volumes for Truck Bus (Radial & Bias) surged significantly. Export revenue growth was largely stable with 5% volumes growth in FY24 Y-o-Y. MRF's operational profile remains strong, supported by its established presence across products. The segment-wise revenue mix for FY24 stands at Truck & Bus - 44%, 2-Wheeler & 3-Wheeler - 15%, SCV/LCV - 10%, Passenger car - 11% and others - 12%. The diversified segmental mix supports MRF favourably, especially during periods of industry slowdown.

Healthy operating performance continues
In FY24, the Total Operating Income increased by 9.45% to ₹ 25,166 crore, up from ₹ 22,997 crore in the previous year (PY). This growth was primarily driven by a 12% increase in the total units sold of tyres and tubes, although it was partially offset by a reduction in prices. The revenue from the OEM segment, which accounts for 21% of the total revenue, saw the highest growth at 11% overall and a 21% increase in volume, due to robust demand. The replacement segment, contributing 71% to the revenue mix, experienced a 10% overall growth and a 9% increase in volume. Within the OEM segment, TBR (Radial) tyres showed significant growth, with a 50% increase overall and a 55% rise in volume. Motorcycle tyres also saw a 25% increase in volume.
Earnings before interest, taxation, depreciation, and amortisation (EBITDA) margins improved sharply to 16.99% in FY24 from 10.41% in the previous year, mainly due to a reduction in both rubber and crude-led input prices. However, margins slightly moderated to 16.11% in Q1FY25 due to rising rubber prices. Since January 2024, input costs have been on an upward trend. International Natural Rubber (NR) prices have surged by 25-30% in recent months, currently trading at approximately ₹ 230 per kg (RSS4 and RSS5 grades), due to a global supply shortage caused by adverse weather conditions in key NR-producing regions in Southeast Asia. High NR prices and volatile crude prices are expected to result in moderation in its profitability margins in FY25.

Strong financial risk profile:
The financial risk profile of MRF continues to remain comfortable with low overall gearing levels of 0.19x (PY: 0.23x). Net debt including dealers deposit/ EBITDA stood at 0.55x (PY 1.23X) as on March 31, 2024. As on March 31, 2024, total debt including dealer deposit stood at ₹5,115 crores, while the cash & equivalents stood at ₹2,752 crore. Debt coverage indicators stood comfortable as interest coverage ratio (PBILDT/ Interest) stood at 11.84 times (PY: 7.33 times). Going forward, MRF is expected to maintain its robust financial risk profile.

Liquidity: Strong
Liquidity is marked by strong cash accruals expected to be in the range of ~ ₹ 3,000 - ₹ 3,500 crore against very minimal annual scheduled repayment obligations. Average fund-based working capital limit utilization of MRF for the last 12-month period ended May 24 remained low at 19%. Net adjusted debt including dealer deposit / PBILDT stood at 0.55x as on Mar 31, 2024 (PY: 1.23x) which is expected to remain comfortable with accretion of stable profits. MRF has sufficient gearing headroom to raise additional debt for its capex, if required. Its unutilized bank lines are more than adequate to meet its incremental working capital needs over the next one year.

Key weaknesses
Susceptible to raw material price volatility and vulnerable to cyclicality in the tyre industry:
MRF's performance remains susceptible to cyclicality in the tyre industry driven by fluctuating demand form end user industry i.e. automobile especially for commercial vehicle demand. With over half of the revenues derived from the commercial segment, any slowdown in economic growth or pace of investments in infrastructure and allied sectors can affect demand, as witnessed in the past. However, with bulk of revenues from the replacement segment, MRF is relatively better placed. Inherent to the tyre industry, raw material cost forms the largest cost head, accounting for 60-65% of the total cost. Rubber and crude oil are global commodities and prices vary across all international markets. The tyre business is highly sensitive to movement in rubber & crude oil prices. Further, input costs have been on an upward trend since January 2024. International NR prices have increased by 25-30% in the past few months, trading currently at ~₹ 230 per kg (RSS4 and RSS5 grade) owing to global supply shortage amid adverse weather conditions in key NR-producing nations in South-east Asia. High NR prices and volatile crude prices are likely to result in moderation in the operating profitability margins in FY25 when compared to FY24.

Competitive nature of industry:
MRF faces competition from other established players in the domestic tyre manufacturing though it has been able to retain its overall market position across various segments over the years. The domestic tyre industry witnessed sizeable investments towards capacity addition over the last few years by various players. MRF has also spent towards capacity addition in the last two years and this in turn had impacted its return on capital employed (RoCE) levels compared to its past averages.

Environment, social, and governance (ESG) risks:
The tyre sector has an impact on the environment owing to emissions, generation of waste and consumption of water. Tyre manufacturing process is dependent on natural resources, such as natural rubber, as key raw material. Due to the nature of operations affecting local community and health hazards involved in the manufacturing process, the sector also has a social impact. MRF has consistently focused on mitigating its environmental and social risks. CARE Ratings believes MRF’s commitment to ESG should support its credit profile.

Environment –
• Agreements have been signed for purchasing solar power for the plants in Tamil Nadu and hybrid power (solar and wind) for the Gujarat plant which will reduce the carbon footprint
• Replacement of furnace oil-based steam generation with alternate gas-based steam generation and use of biomass as alternate fuel for boilers have been initiated.
• Construction of waste-water treatment facility in several plants is underway. Agreements have been signed for using treated municipal sewage water at the Perambalur plant. The treated water will be used in the manufacturing process.
• Most of MRF's purchases are from suppliers in the A and A+ categories (who are governed by MRF’s Supplier Sustainable Policy and Green Procurement Policy) as well as from B category suppliers who are ISO 14001 certified.

Social – On the social front, the company has a rich organisational culture rooted in its core values of respect for people. The company’s CSR activities are directed towards fulfilling the needs of various communities with regard to promotion of education, healthcare and public infrastructure. MRF also supports skill-development initiatives for increasing employability of rural youth and also for sports.

Governance - The company has always adopted high standards of governance. Its business processes are crafted to deliver long-term value for investors through prudent fiscal practices and sound business strategy combined with fair disclosure practices. MRF’s governance structure is characterised by majority of its Board of Directors comprising independent directors, and extensive disclosures. Company has 15 independent directors (75% of the total 20 directors) with three-woman independent director among them.

Applicable criteria
Auto Ancillary Companies
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments
Consolidation

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Consumer Discretionary	Automobile and Auto Components	Auto Components	Tyres & Rubber Products

MRF, India’s largest manufacturer of automotive tyres and tubes, was incorporated as a private limited company in 1960 to take over the business of a partnership firm ‘The Madras Rubber Factory’, started by the late K M Mammen Mapillai. Over the years, the company has established a country-wide dealer network and enjoys a strong brand equity. MRF had an installed tyre manufacturing capacity of 85.44 million tyres and tubes manufacturing capacity of 47.56 million units as on March 31, 2024, spread over nine plants across India. Other business operations of the company consist of manufacturing pre-cured treads, tread rubber, specialty paints, etc.

Brief Financials: consolidated (₹ crore)	FY23 (A)	FY24 (A)	Q1FY25(UA)
Total operating income	22,997	25,166	7,196
PBILDT	2,393	4,275	1,160
PAT	769	2,081	571
Overall gearing (times)	0.23	0.19	NA
Interest coverage (times)	7.33	11.84	13.70

A: Audited UA: Unaudited; NA: Not Available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable
Any other information: Not applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3
Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Term Loan		-	-	26/09/2027	599.99	CARE AAA; Stable
Fund-based - LT-Working Capital Limits		-	-	-	2200.00	CARE AAA; Stable
Fund-based/Non-fund-based-LT/ST		-	-	-	1500.00	CARE AAA; Stable / CARE A1+
NCD	INE883A08016	24-Feb-2023	6months T Bill + 84 BPS	24-Feb-2026	150.00	CARE AAA; Stable
Non-fund-based - ST-BG/LC		-	-	-	1500.00	CARE A1+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Working Capital Limits	LT*	2200.00	CARE AAA; Stable	-	1)CARE AAA; Stable (04-Oct-23)	1)CARE AAA; Stable (06-Oct-22)	1)CARE AAA; Stable (29-Sep-21) 2)CARE AAA; Stable (13-Apr-21)
2	Non-fund-based - ST-BG/LC	ST*	1500.00	CARE A1+	-	1)CARE A1+ (04-Oct-23)	1)CARE A1+ (06-Oct-22)	1)CARE A1+ (29-Sep-21) 2)CARE A1+ (13-Apr-21)
3	Debentures-Non Convertible Debentures	LT*	-	-	-	-	-	1)Withdrawn (29-Sep-21)
4	Fund-based/Non-fund-based-LT/ST	LT/ST*	1500.00	CARE AAA; Stable / CARE A1+	-	1)CARE AAA; Stable / CARE A1+ (04-Oct-23)	1)CARE AAA; Stable / CARE A1+ (06-Oct-22)	1)CARE AAA; Stable / CARE A1+ (29-Sep-21) 2)CARE AAA; Stable / CARE A1+ (13-Apr-21)
5	Fund-based - LT-Term Loan	LT*	599.99	CARE AAA; Stable	-	1)CARE AAA; Stable (04-Oct-23)	1)CARE AAA; Stable (06-Oct-22)	1)CARE AAA; Stable (29-Sep-21) 2)CARE AAA; Stable (13-Apr-21)
6	Debentures-Non Convertible Debentures	LT*	150.00	CARE AAA; Stable	-	1)CARE AAA; Stable (04-Oct-23)	1)CARE AAA; Stable (17-Oct-22)	-

*LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities – Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Debentures-Non Convertible Debentures	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based - LT-Working Capital Limits	Simple
4	Fund-based/Non-fund-based-LT/ST	Simple
5	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Annexure-6: List of entities consolidated as on March 31, 2024

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	MRF Corp Limited	Full	Subsidiary with strong linkages
2	MRF International Ltd	Full	Subsidiary with strong linkages
3	MRF Lanka (P) Ltd	Full	Subsidiary with strong linkages
4	MRF SG PTE. LTD	Full	Subsidiary with strong linkages

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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